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A deal for the Asian century

The new mega trade deal RCEP is set to change the geo-economic and geopolitical map. The future of the international order will be decided in Asia

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It is the mother of all trade agreements. The Regional Comprehensive Economic Partnership (RCEP) brings together 15 Asia-Pacific states, covering almost a third of the world population and global GDP, to form the biggest trade bloc in the world.

The signing of the agreement at the (virtual) 37th summit of the Association of Southeast Asian Nations (ASEAN) sends two messages. On the one hand, it is a clear commitment to open trade routes and greater international cooperation. In an increasingly fragmented world characterized by protectionism, responses to the COVID-19 pandemic, increased isolationism by the United States and the crisis of multilateralism this is an important signal. On the other hand, the states of East and Southeast Asia no longer have to look primarily to the West for trading partners. They are writing the history of our age, characterized by many as the Asian Century.

China is by far the biggest economy within RCEP. It would however be a mistake to conclude that RCEP is a 'China-led' undertaking. The true driving force behind the negotiations launched in 2011/12 has been ASEAN. Progress over the past nine years has often been slow because of the consensus-based nature of the discussions and in keeping with the traditional 'ASEAN Way' and protocol. But this approach paid off in the end. Particularly notable, indeed historic, is the fact that China, Japan and South Korea have come together in a trade agreement for the first time. It is hard to imagine that this could have been accomplished directly, given the difficult relations between the three East Asian countries. ASEAN and its experienced hand in leading regional talks made the real difference. The agreement is thus also an example of successful 'middle-power diplomacy'.

RCEP is impressive primarily because of its sheer scale. In substance,

however, it is less deep and far-reaching than other trade agreements, perhaps owing to the extreme heterogeneity of the participating countries. They range from industrialised countries such as Australia, New Zealand and Singapore, through emerging economies such as Thailand and Vietnam, to the developing countries of Cambodia, Laos and Myanmar. Given the broad differences, RCEP is perhaps best seen as an overarching framework for the trade aspect of their relations.

Good for companies, bad for workers?

The 20 chapters over 520 pages provide for, among other things, tariff reductions (sometimes not particularly ambitious and with very long transition periods), cutting red tape, a simpler framework for intellectual property rights and investments, harmonisation of standards and guidelines on rules of origin. As a result, internal Asian value and supply chains and production in the region are likely to be strengthened. RCEP has therefore been welcomed by companies throughout the region.

By contrast, agreements on labour rights and environmental standards are completely lacking. Local workers' representatives and civil society organisations are rather sceptical about RCEP. Its lack of transparency during the negotiations and missing opportunities for participation have been criticised, even more so in a region where precarious employment is ubiquitous and independent trade unions are fighting for their survival.

It is still too early for a full assessment of RCEP's transformative potential. The actual extent of its economic gains is yet to be determined and the concrete implementation of its at-times-vague provisions remains to be seen. Its entry into force requires ratification by six ASEAN and three non-ASEAN countries. What is more, other agreements are in the pipeline with various international configurations. For most countries in the region, maintaining a balance between China and the US in their foreign, trade and security policies is important. No one wants to end up exclusively on one side or the other.

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Furthermore, other conflicts, such as those in the East and South China Seas, or the ever-increasing tensions over the past few months between Australia and China, will not disappear overnight. Last year, India withdrew from RCEP at the last minute because of worries about potentially negative effects on domestic industries. Although the door remains open, New Delhi is unlikely to back down in the immediate future given the ongoing conflict

with China.

RCEP is set to change the geo-economic map in Asia. The EU has not been standing idly by. Over the past year or so, EU trade agreements with Japan, Singapore and Vietnam entered into force. They have more depth than RCEP and, above all, a dedicated chapter on sustainability. They set quality standards and are notably more ambitious, notwithstanding all the practical challenges when it comes to implementation. The agreements the European Union has struck with countries throughout the region also show that it makes a difference where and how the standards and rules governing the international trade relations of the future are written: whether in Southeast Asia, Brussels, Beijing or Washington — and with which partners.

Where does this leave the United States?

For the US, the situation is difficult. It is now excluded from two massive trade blocs in the Pacific. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which resulted from the prior TPP agreement after the Trump administration's pull-out, encompasses eleven states, including seven RCEP countries. In its substantive breadth and scope of tariff reductions it is more ambitious than RCEP. It will be anything but easy for the upcoming administration of president-elect Joe Biden to sign up to it again – assuming it even wants to.

A free trade agreement on this scale is unlikely to be a priority for a new US administration focused on domestic politics. The economic, social and political upheavals in the US are too dramatic, the Covid-19 crisis is too overpowering, and scepticism among workers in the so-called Rust Belt is too strong. In contrast, China, of all countries, which is not a party to the CPTPP, could possibly consider accession, according to a recent statement by Xi Jinping. It would be an unexpected turn of events.

We can expect Joe Biden to take a different approach vis-à-vis China, in both tone and manner. A different policy in substance is unlikely, however. China and the US are caught up in a decades-long systemic competition for political, economic and military dominance, as well as supply routes, resources, artificial intelligence and technological hegemony in the 21st century. That has consequences for Asia as well as the rest of the world.



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